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CANADA

DOMINION BUREAU OF STATISTICS
INTERNAL TRADE BRANCH

RECENT INTERNATIONAL CAPITAL
MOVEMENTS.

1924 - 1929

A Review of the principal exports and imports
of capital between leading countries during
the past five years



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INTERNAL TRADE BRANCH

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INTERNATIONAL CAPITAL MOVEMENTS, 1924 - 1929 x

For some time past the Dominion Bureau of Statistics has been engaged in a study of the movement of capital into and from Canada, in which connection two bulletins are now issued annually, one dealing with capital movements proper as based on direct observation, and the other a more general treatment of the trade balance of invisible items, in which the capital movement is one of the most important.

In connection with the above work the Bureau has kept in touch with the similar statistics of other countries as affording a general background and relief to the Canadian statistics. In the present report the more important world figures assembled in this way are presented in view of the general interest which exists at the present time in the world situation with regard to capital.

For most countries there are only partial records of capital movements and for no country is it possible to discover the exact volume and direction of the flow of capital funds. The explanation, of course, is that while it is possible to record the public issues of foreign capital on any particular money market, no more than rough estimates can be made of the direct investment (or borrowing) abroad by means of purchases (or sales) of listed securities in foreign markets, or of the private loans and transfers of capital that take place.

Such national estimates are not made to a common pattern comparison between countries is therefore difficult. For many countries, no such estimates have been made; a complete and balanced world statement is therefore impossible. Fairly detailed information is now made available, however, by the Economic Organization of the League of Nations, which published recently a report on the Balance of International Payments, from which report Table A (see Appendix) has been compiled. The purpose of this table is to show the net movement of capital funds in respect of each country for which figures are available. In many cases, of course, the estimated influx of foreign capital is derived from the difference between the two sides of the estimated balance of current international payments. For other countries (e.g. the U.S.A.) the figures of capital movements are the result of direct calculation and estimate. In both methods, the possibility of error is very great and the estimates must be accepted with reserve, and any conclusions drawn therefrom can only be tentative.

In addition, this method of demonstrating capital movements is not free from ambiguity. The actual net movement of capital as indicated by the table may appear to be small, while, in reality, a country may be increasing her investments abroad very rapidly. The reason for this apparent contradiction is that while long term capital investment abroad continues, a counterbalancing influx of short term funds may be taking place, the latter representing in no sense a permanent investment, though it may be sufficient, if one relies solely upon an examination of such a table of net movements, temporarily to disguise the true state of affairs. Thus, to illustrate, the table suggests that Great Britain exported abroad no more than \$24 millions of capital in 1926. To reconcile this with the known fact that foreign issues publicly floated in London in that year equalled \$534 millions, it must be realized that in that year the Continent put out in London vast sums of short term funds. France, building up sterling balances to support the anticipated stabilisation of the franc appears, then, to have exported over \$500 millions in 1926 and 1927, sums exceeding the estimates for Great Britain or the United States. These capital exports consisted very largely of short term funds put out in the various money markets (notably London) which were re-called in 1928-29. They do not indicate a degree of foreign investment comparable with that of either the U.S.A. or Great Britain. Further, since Table A gives merely the net movement of capital, it cannot afford a complete illustration of the reciprocal nature of long term foreign investments, such as that which exists between the U.S.A. and Canada.

The actual export of Canadian Securities to the U.S.A. and of American Securities to Canada is, of course, hidden in the net figures given for either country. To avoid these difficulties, a more detailed study of the principal countries is attempted herein. Nevertheless, an examination of Table A does reveal the general trend of international capital movements. Great Britain, the U.S.A. and France appear to be the principal capital exporting countries, while other nations which have exported capital (importing securities) on balance during this period, though in much smaller amounts, are Holland, Switzerland, Canada and Czechoslovakia. The transfers of capital from these latter countries, it is known, have been effected largely with contiguous regions--Holland to Germany and Belgium, Switzerland to Italy and Germany, Czechoslovakia to the countries of the Danubian Basin (especially Austria and Hungary), Canada to the United States.

The chief capital importing countries of recent years were Germany, Japan, Australia, Hungary, Poland and the South American republics. Other borrowers include Norway, New Zealand, South Africa and India (on balance over the period). The net extent of their annual borrowings is indicated in the table.

While this memorandum is primarily concerned with recent capital movements, it might be instructive to examine these in conjunction with Table B (also compiled from the League of Nations Report) which depicts the total accumulation of foreign investment and foreign indebtedness for certain important countries. This table (see Appendix) again throws considerable light on the reciprocal nature of foreign investments.

The information is incomplete, and varies in exactitude, but again, certain broad conclusions emerge. Firstly, the foreign investments of the United States, despite the continuous increase therein (discussed further on) of recent years, do not yet equal in volume those of Great Britain, the figures being: U.S.A., $\$12\frac{1}{2}$ - $\$14\frac{1}{2}$ billions; Great Britain, $\$19\frac{1}{2}$ billions. Secondly, the investments of foreigners in the United States, estimated at $\$3.7$ billions (U.S. Dept. of Commerce estimate, 1930, is $\$4.7$ billions), to which must be added some $\$3$ billions of short term funds invested by foreigners in the United States, point to the conclusion that the United States is the greatest debtor nation in the world on private account. Of course, her net credit balance of from seven to nine billion dollars nevertheless places the U.S. among the three important creditor nations. Thirdly, the recent movements of capital do not necessarily serve as a guide to the international financial position of any one country. For example, Canada (as the table shows) remains one of the principal debtor nations, to the extent of nearly $\$6$ billions, despite the annual capital export surplus in recent years referred to elsewhere. Her investments abroad (estimated at $\$1,331$ millions, of which $\$935$ millions are represented by holdings in the U.S.A.) counterbalance, in part, of course, this foreign indebtedness.

The more detailed study of the principal capital exporting nations which follows reveals the fact (which cannot be inferred from Table A which includes both long and short term capital movements) that Great Britain appears to be maintaining a position of equality with the U.S.A. in the provision of new long term capital for external borrowers. The comparison can only be rough, since estimates are worked out by different methods and in no great detail for Great Britain.

The net increase in American foreign investments seems to have varied between $\$700$ and $\$900$ millions in 1926-29, the average for the years 1922-28 being $\$740$ millions annually. Another method of calculation gives an average of $\$800$ - $\$1,000$ during 1919-1928.

The increase in British investments abroad appears to have been slightly below $\$1,000$ millions as an average for 1919-1928, as shown by a comparison between the foreign investments held at the beginning and end of the period. The annual surplus recorded on account of the British balance of international indebtedness, which averages $\$1,095$ annually would seem to confirm this estimate.

The British Empire.— Finally, if the British Empire be considered as a single unit, in respect of capital movements, Table A reveals the fact that the balance between the Empire and the rest of the world has fluctuated considerably in recent years. Dominion capital movements are largely governed by the fluctuations of trade and prices; while British capital exports have been subject to several abnormal influences during this period, including the reduced favourable balance of payments resulting from the coal dispute in 1926, and the high interest rates ruling in 1929.

In 1925, when Canadian capital exports were at the peak and India showed a considerable outward movement, the Empire appears to have exported capital. In 1926 the tendency was reversed. The British surplus available for foreign investment was very small and the inflow of capital into India, Australia, New Zealand and South Africa is apparently quite large. The Empire, then, was importing capital.

In 1927, British lendings rose, India and New Zealand were exporting capital and the borrowings of South Africa and Australia declined, so that on balance the British Empire was increasing her creditor position. Larger Australian borrowings combined with smaller capital exports from Canada considerably reduced the net export balance of the British Empire in 1928.

In the rest of this memorandum, an attempt has been made to depict, in greater detail, the movement of capital from and to the more important countries, either as lenders or borrowers. It is hoped that this will serve to indicate, somewhat broadly, the direction and volume of the capital flow, and the main sources from which the borrowing countries have drawn their capital requirements in recent years. The effects of the financial disturbances of 1929 upon capital movements, together with an indication of the probable future trend, are discussed briefly at the end.

CHIEF CAPITAL EXPORTING COUNTRIES

GREAT BRITAIN

Today, as during the 19th century, Great Britain continues to invest abroad, on balance. The volume of such investments has been estimated (Kindersley. Econ. Jnl. March, 1929) at £3896 millions in 1926, and £3990 millions in 1927. These figures (in dollars, 18.9 billions and 19.3 billions) may be compared with the estimate for U.S.A. computed at \$14 billions in 1928. British investments abroad today do not appear to be so high as in 1907 and 1914, when they were estimated at £2693 and £4000 million (Paish) which, at present values would be even greater.

The most accurate statistics relating to British investments abroad are those of "New Securities floated in the London money market". Before the war the greater part of such securities were on account of external requirements. The situation today is somewhat changed. The decline in the importance of external loans may be ascribed to (a) the competition of New York as a market for long term capital, (b) increased domestic needs, (c) growing capital resources of the Dominions.

New Capital issues in London - for external purposes

	Millions £	Millions \$	As % of Total Capital Issued
1924	134	651	60
1925	88	428	39.9
1926	112	534	44.4
1927	139	676	44.1
1928	143	695	39.5
1929	94	457	37.2

That is to say, foreign borrowing in London, in the form of public offerings, averaged 100 millions annually 1924-28, but fell off in 1929 (high interest rates ruling everywhere). Capital raised for foreign purposes averaged 43% (in Great Britain) of that similarly floated in the U.S.A.

It is noticeable that the proportion of the total capital raised which is destined for export was higher in Great Britain (at 47%, average) than in the U.S.A. (38%, average).

The geographical distribution of the foreign capital issues raised on the London market are shown in the following table. While these statistics do not include issues of capital by private companies (except when publicly announced), nor the large sums invested privately and directly, they do give some indication of the direction (not the total volume) of Britain's foreign investments in recent years.

FOREIGN CAPITAL ISSUES, LONDON

	£ (000,000's)									
	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929
India and Ceylon...	3.5	29.5	36.1	25.4	2.6	3.4	2.1	1.4	7.7	10.1
Other British countries....	37.0	61.3	39.4	62.2	70.9	54.0	49.9	86.4	78.4	44.3
Of which:										
Australasia.....					50.0	25.5	31.5	41.0	34.75	17.0
Canada and Newfoundland.....					4.5	2.0	6.0	7.0	20.5	15.25
Africa.....					15.0	15.0	6.5	28.0	16.5	10.5
Asia.....					1.2	11.0	5.0	5.0	4.25	1.4
Foreign countries..	12.7	24.9	59.7	48.6	60.7	30.4	60.4	50.9	57.3	39.9
Of which:										
Germany.....					} 36.0	1/11.0	6.0	7.0	8.25	} 21.5
Belgium.....							7.0			
Other European...							11.8	2/14.5	3/25.5	
Dutch East Indies.....						3.5	2.8			
Japan.....					17.3	1.3	5.0	1.5	1.0	
Other Asiatic....							0.2			
Argentina.....					} 7.0	8.0	9.0	6.0	4.5	8.5
Brazil.....							12.3	13.0	9.25	
Chile.....						6.0	3.0			7.5
Other American...							2.2	7.0	6.0	
Total.....	53.2	115.7	135.2	136.2	134.2	87.8	112.4	138.7	143.4	94.3

- 1 Mainly Germany and Italy.
- 2 Italy, Greece and Poland about £2 millions each.
- 3 Greece £7.5 millions and Hungary £4.75 millions.

These figures are net, after deductions for conversion or redemption issues. They also exclude short dated bills sold by foreign public bodies in anticipation of long term loans, and represent, therefore, a definite export of new capital. It will be seen that, on the average, about 60% of total long term capital exports (publicly issued) were on account of the British Empire, Australia taking the largest share, and 40% were destined for foreign countries. The average export of such capital during 1922/8 was slightly over \$500 millions annually.

Estimates of the annual private and direct investments abroad do not appear to be available. The estimated increase in total British long term investments of \$9 billions during the 10 years 1919/1928 (\$12 billions to \$21.5 billions) suggests an average annual increase of slightly under one billion dollars. This of course is not a measure of the net capital movement; against it must be set the inflow of short term funds and long term investments from abroad. The only guide to the net movement is the estimated credit balance of international payments compiled officially. The figures for recent years are: 1927, \$534 millions; 1928, \$739 millions; 1929, \$734 millions, representing the balance available for foreign investment. This surplus or balance for the years 1922-9 totalled \$1,756 millions, or \$1,095 millions annually. If the familiar contention that Great Britain has been borrowing short to lend long were true, it is probable that figures for recent years (admittedly worked out on a conservative basis) do not fully measure the extent of long term capital exports.

UNITED STATES OF AMERICA

The enormous expansion of foreign trade which took place during the war left the U.S.A. an international creditor to an almost inconceivable figure, and since that period, the U.S.A. has continued annually to export, on balance, large sums of capital.

An estimate of the National Industrial Conference Board places the United States creditor position in 1919 at \$14 billions of which \$5½ billions represents private investments, against which must be set sums which the U.S.A owed to foreigners (investments U.S.A. and foreign bank balances held) estimated at \$4 billions.

Before the war, Europe had been the chief, virtually the only lender (to the U.S.), and Canada and Latin America were her principal debtors. By 1919, Europe, by reason largely of governmental borrowings from the U.S. Treasury, had become America's chief debtor, while U.S. investments in Canada and South America were increasing. The financial exigencies arising from post war problems, the shortage of capital in an exhausted Europe (especially Germany), the desire of American investors to take advantage of the commercial and industrial development of the newer countries of Central and South America, Canada and elsewhere, have contributed to the increase in the export of capital, which can be estimated at \$20 billions in long term investment abroad by the end of 1928, or, excluding war debts and short term loans to foreigners, about \$12½ - \$14½ billions. This total private long term investment abroad, using the scanty records available is made up as follows:-

Europe, is indebted \$4½ billions. Germany is by far the largest borrower. Scarcity of liquid capital (causing high interest rates) and the need for funds to pay reparations have made Germany an increasingly profitable field for investment, so that by 1928 nearly 50% of Europe's borrowings in U.S.A went to Germany. Thus, in 1926, \$300 millions (par value) was exported to Germany, largely on account of industrial and commercial enterprises, and this figure is representative of recent years, with the exception of 1929, when German borrowings fell to less than one third of this amount.

Latin America, \$4½ to \$5½ billions. This figure consists almost entirely of private long term investment. In 1927 and 1928, 26% of Foreign capital issues publicly floated in U.S.A. were in respect of this geographic area, and exceeded \$250 million annually.

Canada, \$3 to \$3½ billions. Canada has been a persistent borrower for many years, but since 1924, Canadian securities offered in U.S.A. have declined, and the actual annual borrowings are largely offset by Canadian long and short term investment in the U.S.A.

Asia, Australia, Africa, \$1 to \$1 1/3 billions. These countries have absorbed about 10% of the annual foreign lendings of the U.S.A. (say \$110 millions annually) during the last five years.

American private investments abroad appear to have increased from \$5½ billions at the end of 1919 (estimate of Nat. Industrial Conference Board) to \$12½ - \$14½ billions at the end of 1928, or an average of \$800 - \$1,000 annually. The more direct calculation, worked out below, gives somewhat lower results.

MOVEMENTS OF LONG TERM CAPITAL OUT OF AND INTO THE U.S.A.

Estimates abstracted from U.S. Trade Information Bulletins Nos. 552, 625, 698.

(In millions of dollars)

(plus sign = inwards, minus sign = outwards)

	1922	1923	1924	1925	1926	1927	1928	1929
(1) Foreign Capital issues floated in U.S.A.-Net	-627	-365	-876	-953	-1002	-1183	-1124	- 635
New Direct Investments abroad - and foreign stocks and bonds bought from foreigners					- 355	- 423	- 946	- 923
(2) <u>Total New American Investments abroad</u>					<u>-1357</u>	<u>-1606</u>	<u>-2070</u>	<u>-1558</u>
(3) Reduction of previous American investments abroad					+ 659	+ 753	+ 853	+ 776
(4) New Foreign Investments in the U.S.A.					+ 668	+ 889	+1704	+1568
(5) Reduction of previous foreign investments in the U.S.					- 574	- 731	-1223	-1172
<u>Net movement of long term Capital</u>					<u>- 604</u>	<u>- 695</u>	<u>- 736x</u>	<u>- 386</u>

x Revised June 1930, to 708 millions.

- 1) The figures given for foreign capital issues in the U.S.A. have been reduced to account for (a) stock issued below par; (b) refunding to Americans; (c) commissions, etc. These items total several hundred millions annually.
- 2) It would seem, therefore, as if the U.S.A. were exporting long term capital annually, of recent years, to the extent of over one billion dollars by public subscription in the U.S. and rather more than half a billion dollars by private and direct investment abroad.
- 3) Compensating in some measure for this efflux of American capital, there is a growing "backwash" from sinking fund and redemption payments, and from the resale of foreign investments to foreigners (totalling say, \$700 millions annually) which reduces the figures for new foreign investments abroad considerably. That is to say, the net increase in American investments abroad (item 2 minus item 3) was as follows:
1926, \$698 millions; 1927, \$853 millions; 1928, \$1217 millions; 1929, \$782 millions.

Figures for earlier years have been revised by the U.S. Department of Commerce. (Bulletin 625, 1928; p.57) thus,-

Net Increase in American long-term investments abroad, after usual deductions;-
1922, \$722 millions; 1923, \$210 millions; 1924, \$744 millions; 1925, \$753 millions, or an average for 1922/9 of slightly under \$750 millions annually.

- 4) Moreover, rising security values were attracting an increasing volume of new foreign investments in the U.S. (estimated at the enormous figure of \$1,704 millions in 1928, and almost as high again in 1929) although this latter movement is partly counterbalanced by the reduction of previous foreign investments in the U.S.A. (item 5).

The net result of these long-term capital transactions was therefore an outward movement of \$604 millions in 1926, \$695 millions in 1927, \$736 millions in 1928, and \$386 millions in 1929. If short term capital movements are merged with these figures, the resulting net export of capital is found to be somewhat less (see below). The actual net movement may be seen by reference to Table A.

SHORT TERM CAPITAL MOVEMENTS in the U.S.A. continue to be large, though the exports of short funds from the United States is more than balanced by the imports. In any case, the actual changes or net movement of funds, while very significant in their effect upon international money markets, is small compared with the long term capital movements. Thus:-

	1927 Dec. 31	1928 Dec. 31	1929 Dec. 31
	<u>millions of dollars</u>		
total short term funds <u>due</u> from abroad (Includes bank balances abroad, overdrafts by foreigners, advances and credits and funds put out in foreign money markets).	1,236	1,306	1,484
total short term funds <u>due</u> to foreigners (representing foreign short term investment in United States).	3,100	2,896	3,087
balance, due to foreigners	1,864	1,590	1,603

The net change of short term funds during 1928 was therefore \$274 millions outwards, and during 1929, \$13 millions inwards. The net import of short term capital since 1922 has recently been estimated at \$679 millions.

DISTRIBUTION OF AMERICAN CAPITAL EXPORTS.- Accurate statistics can only be obtained with respect to the issues publicly floated in the U.S. It is believed that these give an idea of the direction, and the relative importance of the various countries as borrowers; absolute figures cannot be given without estimating the volume and direction of direct private capital exports.

FOREIGN CAPITAL ISSUES IN U.S. (MILLIONS OF DOLLARS)

Nominal New Capital

	1926	1927	1928
Belgium	56.5	14.13	14.28
Denmark	113	24.05	61.50
France	-	50	17.25
Germany	301.45	235.06	292.47
Italy	54.09	120.40	65.46
Total Europe	512.03	656.79	650.92
Australia	-	92.43	56.50
Japan	31.74	28.29	97.90
Dutch East Indies	-	24.35	44
Total Asia & Oceania	41.63	158.46	160.52
Canada and Newfoundland	296.59	316.80	237.36
Argentina	88.29	109.35	113.03
Brazil	59.97	66.78	78.25
Chile	109.34	23.38	81.41
Colombia	37.57	68.67	74.16
Cuba	45.72	71.75	16.90
Peru	16.00	53.96	20.50
Total Latin America	468.31	460.55	438.31
Total New Nominal Capital exports	1,318.56	1,592.60	1,487.86

The significant features of this table are:

- (1) The preponderance of the German portion of European borrowings, equal to 250/300 millions of dollars annually.
- (2) The emergence of Australia as a borrower in the New York money market.
- (3) Steady investment in Canada of 250/300 million dollars annually.
- (4) The large investment in Latin America, particularly in the Argentine.

The remarkable change in the volume of capital movements in 1929, together with the recent revival of the normal flow, is discussed at the end of this memorandum.

FRANCE

France, a nation of investors to-day as before the war, continues to export capital. The low interest rates in France in part exemplify the abundance of domestic funds, and the favourable balance of international payments indicates the possibilities of foreign investment. On balance, France is a full creditor nation, her investments abroad being estimated at \$4 billions in 1928 against \$800 millions of foreign investments in France.

Long term foreign investments, however, have been somewhat discouraged in recent years by the heavy taxes on dividend coupons (25%) and foreign bonds (4% nominal value) with the result that French investment abroad has been directed towards the short term market, so that the French share of the International short term fund has been very large in recent years, and the repatriation of such monies particularly disturbing to the money markets of London(x) and Berlin and other countries. By means of reduced taxes, and official encouragement, it is believed that Paris will recapture her former eminence in long term foreign financing.

Capital investments from France are estimated as follows:-

1925.....	\$501 millions
1926.....	\$525 "
1927.....	\$491 "
1928.....	\$187 "

approximately 500 million dollars annually 1925/7 falling off in 1928 (increase in domestic flotations). New capital issues for foreign account have been small; the capital export was largely in the form of purchase of securities abroad, existing and new, and the creation of large floating assets in the main capital markets(London,Berlin and New York.)

French balances in London during 1929 are estimated to have varied between \$750 millions and \$1,000 millions.

OTHER COUNTRIES EXPORTING CAPITAL (ON BALANCE) DURING
RECENT YEARS

HOLLAND.— The importance of Amsterdam as an international money market is increasing, and Holland is estimated to have invested abroad roughly \$100 millions annually, the larger part of which went to Germany, and lesser amounts to Czechoslovakia, Poland, Belgium and Denmark, and of course, to the Dutch Possessions in the Far East.

SWITZERLAND, exports approximately \$30 millions annually, on balance, largely to Germany and Italy. The accumulated total of foreign investments is in the region of 1½ billions.

ITALY, exported long term capital to the extent of 20/30 million dollars annually during the years 1923/5, since when the movement (long term) has been inwards \$50/130 millions in 1926-8), but largely offset by the creation of foreign short term assets. Foreign long term borrowing has since fallen off.

BELGIUM, is believed to be exporting capital, particularly to Belgian enterprises abroad, offset partly by new Belgian capital issues in foreign markets (Holland, Switzerland).

For some countries the figures point to a recent change in the movement of capital. Sweden and Canada, both of which imported capital after the war, now record a net outflow (See Summary Table), the common method being the re-purchase of securities abroad and amortisation payments. Czecho-Slovakia is similarly reducing her foreign indebtedness.

Canada

The Bureau has already published a bulletin estimating in detail the alterations in British and Foreign investments in Canada and Canadian investments abroad. Summarising the results obtained,—

Total Investment in Canada
(In millions of dollars)

	<u>Dec.1925</u>	<u>Dec.1928</u>	<u>Increase</u>
Great Britain	2,171	2,197	26
U.S.A.	2,917	3,470	553
Rest of the world	235	237	2

Canadian Investments Abroad

Great Britain	124	96	28 1/
U.S.A.	626	992	366
Rest of the world	389	658	269

1/ Decrease

It will be seen that Canadian investments abroad increased by roughly \$600 millions, an amount slightly exceeding the increase in foreign investments in Canada. These figures do not, of course, represent the net flow of capital since they give only the new indebtedness after repurchases and redemptions have been allowed for. That is to say, since outside investments in Canada (notably those of Great Britain) have been partly reduced by means of repayments and redemptions etc., the actual net outward movement of capital has been considerably greater than the above figures indicate, and have been estimated as follows:—

Net outward movement of Capital funds from Canada
(Being the difference between net capital exports and net capital imports)
in millions of dollars

	<u>Great Britain</u>	<u>U.S.A.</u>	<u>Other Countries</u>	<u>Total</u>
1925	30.7	75.9	70.2	176.7
1926	32.0(inwards)	9.0	108.3	85.3
1927	16.4(inwards)	39.3(inwards)	74.4	18.7

In 1928, capital invested abroad by Canadians increased about \$167 millions. Hence, capital exports were again apparently somewhat in excess of imports, but the net movement after providing for repayments etc. has not yet been calculated. No calculation of the capital movements affecting Canada has been made as yet for 1929 but the estimated balance of International payments for 1929 (published recently by the Bureau) shows an adverse balance of \$88 millions which leads to the belief that some portion of the amount is due to net importation of capital into Canada.

Principal Capital Importing Countries

The chief capital importing countries of recent years may be divided into two groups, the first including Germany, Japan, Hungary and Poland. The heavy foreign borrowings of this group (as compared with pre-war) may be said to be due to the need for reconstruction and pending a more balanced state of merchandise trade. The second group includes Australia and, to a lesser extent, the other Dominions and the South American republics; foreign investment herein represents the desire of the more mature lending countries to share in the rapid economic development of these newer regions. The distinction between these two channels of foreign investment is, of course, important.

GERMANY

Germany is the largest borrower on the international markets of recent years, a position she is likely to hold for some time in view of her liability on account of reparation payments.

Before the war Germany had a large volume of foreign investments, exceeding investments within Germany held by foreigners by roughly \$5 billions. The greater part of these holdings disappeared during and immediately after the war, since when foreigners have acquired increasing amounts of German securities and real estate, particularly since 1924 when the introduction of a new currency caused a phenomenal scarcity of capital, accentuated by the need for foreign funds in order to pay for necessary imports, and for reparations. The success of the German External Loan of 1924 (Dawes Plan) opened the way for a long series of capital issues abroad. The table hereunder (taken from the report of the Agent General, June 1929) indicates the actual volume of such capital movements, and the countries from which it was imported.

Long-Term German Loans Abroad
(nominal amounts in millions of reichsmarks)

Year	Total	U.S.A.	Holland	Great Britain	Switzerland	Sweden	Other Countries
1924	1002.0	512.4	51.3	250.5	56.6	28.2	103.1
1925	1265.5	923.0	142.1	122.2	67.9	10.3	-
1926	1580.0	1107.9	189.5	142.0	66.2	43.4	31.1
1927	1411.7	890.4	262.4	152.8	52.0	51.9	2.3
1928	1464.2	1017.1	201.7	135.2	57.6	11.8	40.8
1929							
1st quarter	230.5	138.9	38.6	10.5	39.3	3.2	-
Total	6953.9	4589.7	885.6	813.2	339.6	148.8	177.3

Of the total long term loans to Germany, equal to 6954 million reichsmarks (1656 millions) the United States has contributed 66%, Holland 13%, Great Britain 12%, Switzerland 5%, Sweden 2½%

This list by no means exhausts the supply of long term capital transactions with Germany. Securities issued in Germany are being purchased increasingly by foreigners and by foreign investment trusts; and German loans are being converted into foreign loans.

The Statistical Office of the Reich estimates the influx of capital of this nature at 2100 million reichsmarks, (\$500 millions) in 1928, a figure much above the average; on the other hand, 1928 saw the beginning of a considerable export of capital (by no means restricted to the re-purchase of German bonds abroad) estimated at 1,846 million R.M.

The amount of Germany's long term indebtedness to foreign countries has been estimated at about R.M. 5.5 billions (Dec.1928).

Short term capital movements into Germany have been very great, the chief supply coming from the U.S.A. (until 1929) and France, showing an estimated increase of R.M. 1904 millions in 1927 and R.M. 1588 millions in 1928, the total of such foreign investments being estimated at R.M. 7 billions at the end of 1928. The actual distribution of the short term investments cannot be shown. The U.S.A. was certainly responsible for a large portion, as evidenced when the partial repatriation took place early in 1929. Great Britain, Holland and Switzerland are known to possess large holdings. The following table is based upon the Balance of Payments statement published by the Reich statistical office.

(in millions of R.M.)

	1924	1925	1926	1927	1928
Movements of foreign investments in Germany	+ 1000	+1124	+1376	+1613	+3559
Movement of German investments abroad	+1000	+ 200	-	+ 73	-1846
Short term capital transactions	+ 506	+ 118	+ 137	+1904	+1588
Capital transactions not otherwise classified	+ 548	+1962	- 502	+ 720	+1344

plus sign means outwards (exports of capital from Germany)

minus sign means inwards.

JAPAN

Japan has borrowed heavily abroad, especially since the disastrous earthquake of 1923 (see summary table). Foreign loans outstanding, in millions of dollars (approx.) are reported by the Commercial Counsellor, H.M. Embassy, Tokyo, as follows:-

1924	1925	1926	1927	1928	1929 (April)
978	980	1025	1025	1095	1094

Private and direct investment by foreigners would add to the total considerably. The greater part of the above investments consist of national loans floated abroad, and it is believed that the U.S.A. and Germany are the countries chiefly interested, British investments being largely confined to Banking, Shipping and Insurance. It is also believed that the short term debt has increased steadily during the last five years.

AUSTRALIA, (and New Zealand)

"British finance is still all but the only source of supply of external capital, in spite of occasional resort to the New York market for Government loans", and unduly large issues have been floated in London since the war by State and Federal authorities. Thus the total public debt of Australia (Commonwealth and States) outstanding at the end of 1929 was £1,117 millions (\$5,428 millions) of which £532 millions is redeemable in London and £48 millions in New York, together making nearly 60% of the total public debt. Recent flotations are as follows:-

(in millions £)

Year ending 30 June	Payable in London	Payable in New York	Payable in Australia
1925	146.1	-	273.9
1926	155.8	15.4	276.0
1927	152.8	15.3	281.8
1928	172.4	33.5	277.0
1929	185.4	33.2	312.2

Maturities, of course, are responsible for some outward movements, and are likely to be fairly considerable in the next 5 years.

No estimate of direct movements of capital appears to be available.

ARGENTINE

The Argentine Government is a heavy borrower on the international capital markets and private foreign investments are correspondingly large. Since 1923 the external debt (excluding that of the provincial governments) has more than doubled:-

Argentine Government Debt (External) converted into dollars.

1923.....	\$237 millions
1924.....	302 "
1925.....	366 "
1926.....	391 "
1927.....	486 "
1929.....	492 "
(June 30)	

These figures are roughly comparable with the increases in the internal debt. In addition, part of the floating debt is raised abroad, (for example, \$25 millions was borrowed recently in London in form of 12 months Treasury Bills).

Private investments in Argentine are large (the railways, largely British owned, remitted abroad roughly \$80 millions in 1928 in respect of dividends) but recent direct movements of capital are difficult to estimate, except by subtracting the known figures for public issues from the estimated total new investment in the Argentine, thus. (in millions of dollars)

	1922/23	1923/4 and 1924/5	1925/6	1926/7	1927/8
Estimated New investments (public and private) including short term operations	59.1	228.1	55.9	162.4	148.8
Public borrowings	13.1	99.0	29.5	127.0	not known
Movement of capital inwards for non-governmental purposes	46.0	129.1	26.4	35.4	-

The public loans appear to have been subscribed very largely by Great Britain, U.S.A. (increasingly) and Spain. The railway extensions of recent years have been financed largely by British capital, and the public utilities by American.

BRAZIL

Foreign investments in Brazil aggregate \$3,259 millions (estimate by Max Winkler), in which Britain ranks first with \$1,512 millions, the U.S.A. second, with \$504 millions, and France third with \$89. millions (Jan. 1, 1930). The balance is held by Holland, Belgium, Italy, Spain, Germany and other countries. Capital continues to be imported, but no estimate appears to exist, except for Great Britain and the U.S.A. The indication of the movement may be inferred from the figures of "new capital issues publicly floated" in London and New York on account of Brazil:
(in millions of dollars) -

	1925	1926	1927	1928	1929
London	29.2	59.8	63.2	44.4	
New York	figures not available	59.9	66.8	78.2	16.3

The Decline in Capital exports during 1929 - subsequent revival in 1930.

As already indicated, the movement of long term capital from the two major capital exporting countries received a marked set back in 1929. The reasons for the rise in interest rates to a level which effectually curtailed the volume of foreign borrowings are sufficiently familiar. The actual decline in capital exports was, of course, greatest in the case of the United States. New foreign capital issues in the U.S.A. were down to \$705 millions, par value, as compared with \$1577 millions in 1927 (the peak year) and \$1489 millions in 1928. Of the \$705 millions, Canada alone accounted for \$309 millions and Latin America for \$176 millions. European issues were very small at \$146 millions as compared with \$650 millions in 1927 and 1928. It should also be observed that the proportion of capital floated in U.S.A. which is destined for external purposes has declined in recent years:- 20% in 1927, 16% in 1928, 7½% in 1929. In 1929, the actual net movement of capital outwards was \$386 millions, as compared with \$736 millions in 1928. In addition, the United States became a heavy importer of short term funds to a degree more than sufficient to counterbalance short term exports, and the result of this decline in capital exports was to be seen in the foreign exchange difficulties of many countries and explains in part the business depression which characterized the latter part of the year in most borrowing countries.

The reduction of foreign lending by Great Britain, while considerable, was not so heavy. New capital issues for external purposes fell to \$457 millions as compared with \$695 millions in 1928, the prevailing financial stringency being due, in large measure, to the withdrawal of European (largely French) and American short term balances. The German economy, which had come to depend on a continuous movement of long and short term capital from New York was especially embarrassed by the diminution of the supply.

There can, however, be little doubt but that the restoration of lower interest rates in New York, coupled with the cessation of the speculative boom on the Stock Market, will induce further capital exports and evidence of this tendency is not lacking already. Foreign governments and provinces are already beginning to borrow in the United States, and the foreign capital issues publicly offered in the first quarter of 1930 amounted to \$338 millions, of which \$106 millions was for refunding purposes. The totals for 1929 for the same period were:- nominal capital \$274 millions, of which only \$9¾ millions were on account of refunding.

The foreign capital issues in Great Britain during the first four months of 1930 were \$225 millions (excluding all refunding issues, etc.) as compared with \$284 millions for the same period in 1929, and \$280 millions in 1928.

(Net)

(000,000's)

(Source - League of Nations. Memorandum on International Trade and Balance of Payments, 1926-28, Vol. II)
 - Capital Exports. / Capital Imports.

Remarks	1923	1924	1925	1926	1927	1928
United Kingdom.....						
U.S.A.....	- 700	- 163.4	- 316.4	- 24.6	- 549.2	- 666.91
France.....	/ 126	- 489	- 622	- 140	- 470	- 1087
Netherlands.....	-	-	- 501	- 525	- 491	- 187
Switzerland.....	- 70	-	-	- 124	- 100	-
Czechoslovakia.....	-	- 23	- 44	- 28	-	-
Canada.....	- 45.9	-	- 10.2	- 55.3	- 68.3	- 50.8
Norway.....	/ 34.7	- 109.3	- 176.7	- 85.3	- 18.7	- 15
Germany.....	-	/ 22.7	/ 27.2	/ 6.6	/ 22.6	/ 34.8
Japan.....	-	/ 454.3	/ 922.7	/ 238.7	/ 1131.6	/ 1066.9
Australia.....	-	/ 225.7	/ 73.6	/ 127.5	/ 22.1	-
Argentina.....	/ 17.8	/ 212.7	/ 0.6	/ 182.4	/ 57.1	/ 264.5
Brazil, Chile, Colombia, Peru & Cuba.....	/ 32.4	-	/ 85.3	/ 31.4	/ 132.2	/ 134.8
Hungary.....	-	-	-	/ 360	/ 360	/ 360
Denmark.....	/ 2.5	/ 19.4	/ 25.7	/ 83.9	/ 87.5	-
Poland.....	/ 14.6	/ 2.4	- 2.7	/ 11.7	/ 11.3	-
New Zealand.....	/ 23.8	/ 48.5	/ 61.5	- 1.6	/ 50.9	/ 118.3
Union of S.A.....	/ 25.0	/ 24.6	/ 33.1	/ 67.2	- 2.9	-
India.....	/ 4.5	/ 34.4	/ 20.4	/ 72.1	/ 25.6	-
Dutch E. Indies.....	- 18.6	/ 81.9	- 70.1	/ 177.9	- 77.3	/ .07
Roumania.....	-	-	-	/ 12.6	- 30.1	-
S.H.S.....	-	-	-	/ 7.9	/ 5.2	/ 28.3
Italy.....	- 23.9	- 17.0	- 30.7	/ 8.2	/ 25.8	-
Finland.....	/ 6.7	- 6.8	- 2.3	- 1/2	-	-
Sweden.....	/ 33	/ 13	- 32	- 8	- 2	/ 40.4
Lithuania.....	-	-	- 1	- 3	- 24	- 39
Latvia.....	- 3	/ 6	/ 6	/ 5	- 1	-
Estonia.....	-	/ 1/2	- 1/2	/ 1	/ 1	-
Turkey.....	-	-	-	/ 7.1	-	-

Including private capital operations and excess of Govt. Payments or Receipts

1923-5 long-term investments only

Funded public debt only

Incomplete in 1923, 1926 and 1928; Probably over \$200,000,000 in each of the three years.

Incomplete in 1926 & 7

Long-term investment only

